

“Making Work Pay” Tax Credit

For 2009 and 2010, the Making Work Pay provision of the American Recovery and Reinvestment Act will provide a refundable tax credit of up to \$400 for working individuals and \$800 for married taxpayers filing joint returns.

This tax credit will be calculated at a rate of 6.2 percent of earned income and will phase out for taxpayers with adjusted gross income in excess of \$75,000, or \$150,000 for married couples filing jointly.

For people who receive a paycheck and are subject to withholding, the credit will typically be handled by their employers through automated withholding changes in early spring. These changes may result in an increase in take-home pay. The amount of the credit must be reported on the employee's 2009 income tax return filed in 2010. Taxpayers who do not have taxes withheld by an employer during the year can also claim the credit on their 2009 tax return (from [The Making Work Pay Tax Credit](#)).

How to Apply: Taxpayers will receive this benefit through a reduction in the amount of income tax withheld from their paychecks. It is not necessary to submit a Form W-4 to get the automatic withholding change. However, an employee with multiple jobs or married couples whose combined incomes place them in a higher tax bracket may elect to submit a revised [W-4](#) to ensure enough withholding is held to cover the tax for his or her combined income.

Taxpayers may consult with their employer and visit www.irs.gov for more information.

Economic Recovery Payment to Recipients of Social Security, SSI, Railroad Retirement and Veterans Disability Compensation Benefits and Certain Federal and State Pensioners

A one-time payment of \$250 will be made in 2009 to:

- Retirees, disabled individuals and Supplemental Security Income (SSI) recipients receiving benefits from the Social Security Administration.
- Disabled veterans receiving benefits from the U.S. Department of Veterans Affairs.
- Railroad Retirement beneficiaries.
- Certain Federal and State Pensioners who are not eligible for Social Security benefits

The IRS will not make this payment — unlike last year's economic stimulus program. Individuals who may qualify for this year's economic recovery payment should contact their respective agency for more information.

The [Social Security Administration Web site](#) has a special section on the economic recovery payment.

The economic recovery payment will be a reduction to any [Making Work Pay](#) credit for which the recipient qualifies. The Making Work Pay credit will be claimed on the recipient's 2009 tax return filed in 2010 (from [The Economic Recovery Payment](#))

How to Apply: For more information, please see the [Social Security Administration Web site](#) .

Increase in Earned Income Tax Credit

The earned income tax credit (EITC) is a tax credit for low-income working individuals and families that is refundable for certain taxpayers, meaning it can be claimed even if the credit is worth more than the taxes owed. This provision would temporarily increase the earned income tax credit from 40% to 45% for working families with three or more children and increasing marriage penalty relief. This credit is claimed on your 2009 return.

How to Apply: Taxpayers will receive this credit by claiming the credit on their 2009 tax returns. The provision is effective for taxable years beginning after December 31, 2008. For more information about the EITC, please contact www.irs.gov.

Increased Eligibility for the Refundable Portion of Child Credit

A child tax credit is a tax credit based on the number of dependent children in a family. This provision would increase the eligibility of the refundable child tax credit. This expansion will cut the taxes for the families of nearly 16 million children.

How to Apply: The provision is effective for taxable years beginning after December 31, 2008. The tax credit will be given after filing for taxes. For more information, visit www.irs.gov.

“American Opportunity” Education Tax Credit

The bill would provide financial assistance for individuals seeking a college education. For 2009 and 2010, the bill would provide taxpayers with a new “American Opportunity” tax credit of up to \$2,500 of the cost of tuition and related expenses paid during the taxable year. Under this new tax credit, taxpayers will receive a tax credit based on one hundred percent (100%) of the first \$2,000 of tuition and related expenses (including books) paid during the taxable year and twenty-five percent (25%) of the next \$2,000 of tuition and related expenses paid during the taxable year. Forty percent (40%) of the credit would be refundable. This tax credit will be subject to a phase-out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly). (from [Full Summary of Provisions from the Senate Finance and House Ways & Means Committees](#))

How to apply: This credit is claimed on your 2009 tax return.

Computers as Qualified Education Expenses in 529 Education Plans

529 Plans are tax-advantaged savings plans that cover all qualified education expenses, including: tuition, room & board, mandatory fees and books. The bill provides that computers and computer technology qualify as qualified education expenses. (from [Full Summary of Provisions from the Senate Finance and House Ways & Means Committees](#))

How to Apply: Families that use 529 Education Plans will now be able to withdraw funds from the 529 account, tax free, to go toward to purchase of computers or computer technology. For more information, visit the Minnesota College Savings Plan at <http://www.mnsaves.com/index.html>

Refundable First Time Home Buyer Tax Credit

Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10 percent of the purchase of a home (up to \$7,500) by first-time home buyers. The provision applies to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit are currently required to repay any amount received under this provision back to the government over 15 years in equal installments, or, if earlier, when the home is sold. The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 in the case of a joint return). The bill eliminates the repayment obligation for taxpayers that purchase homes after January 1, 2009, increases the maximum value of the credit to \$8,000, and removes the prohibition on financing by mortgage revenue bonds, and extends the availability of the credit for homes purchased before December 1, 2009. The provision would retain the credit recapture if the house is sold within three years of purchase. (from [Full Summary of Provisions from the Senate Finance and House Ways & Means Committees](#))

How to Apply: Eligible taxpayers can claim this credit when filing their 2009 taxes.

Sales Tax Deduction for Vehicle Purchases

The Recovery Act provides a deduction for state and local sales and excise taxes paid on the purchase of new cars, light trucks, motor homes and motorcycles through 2009. The deduction is available regardless of whether a taxpayer itemizes deductions on Schedule A. Purchases before Feb. 17, 2009, are not eligible for this special deduction.

The deduction is limited to the tax on up to \$49,500 of the purchase price of an eligible motor vehicle. The deduction is phased out for joint filers with modified adjusted gross income between \$250,000 and \$260,000 and other taxpayers with modified AGI between \$125,000 and \$135,000 (from [Sales Tax Deduction for Vehicle Purchases](#))

How to Apply: Taxpayers can seek this deduction by claiming the deduction on their 2009 tax return.

Temporary Suspension of Taxation of Unemployment Benefits

Under current law, all federal unemployment benefits are subject to taxation. The average unemployment benefit is approximately \$300 per month. The proposal temporarily suspends federal income tax on the first \$2,400 of unemployment benefits per recipient. Any unemployment benefits over \$2,400 will be subject to federal income tax. This proposal is in effect for taxable year 2009. (from [Full Summary of Provisions from the Senate Finance and House Ways & Means Committees](#))

How to Apply: The provision will take effect and suspend the withholding of federal income tax on unemployment benefits automatically .

Alternative Minimum Tax

This provision would provide more than 26 million families with tax relief in 2009 by extending AMT relief for nonrefundable personal credits and increasing the AMT exemption amount to \$70,950 for joint filers and \$46,700 for individuals. (from [Full Summary of Provisions from the Senate Finance and House Ways & Means Committees](#))

How to Apply: This benefit will automatically go into effect without any action from the taxpayer.